

# USAID's Approach to Poverty Reduction

## *The Case of Romania*

### EVALUATION BRIEF NUMBER 7

## Summary

Poverty reduction is not a formal, overarching objective of the Government of Romania or its development donor community. The government's overwhelming preoccupation is accession to NATO and the EU, though these goals stand for the economic growth and poverty reduction expected to follow. Poverty reduction has figured in several governmental statements and programs, but there is no well-coordinated effort to implement a poverty reduction program.

As a middle-income country that does not qualify for debt relief, Romania is not crafting a Poverty Reduction Strategy Paper (PRSP) for the international financial community. There is no comprehensive development strategy that unifies Romanians and international partners around a common vision for the country. Without poverty reduction as a compelling theme or a commonly shared strategy paper, each donor in Romania promotes its own strategic vision, leading to a plethora of strategy papers and lack of coordination. The situation is compounded by the absence of the concept of partnership, wherein the government determines its priorities and invites international donors to contribute to specific components.

As Romania struggled in the late 1990s to recover from the legacy of communism, economic growth was negative—average annual GDP growth was –1.5 percent from 1996 through 2000. Over the same period, macroeconomic management was precarious, and annual inflation ranged from 35 to 155 percent. In 2000, the economic picture became more encouraging, and the rate of GDP growth turned positive. Inflation was expected to be less than 25 percent in 2002, exports have begun to pick up, and the government deficit has begun to decline.

Despite this progress, economic growth has been hamstrung by poorly conceived privatization of the

## KEY IDEAS

- Lack of coordination on poverty reduction at the central level of government increases the difficulty of coordinating donor initiatives around this theme, even though donors are concerned about rising poverty rates.
- The presence of a program economist on the mission's staff is required to enable market and political economy analysis of policy choices in economic growth, democracy and governance, and social service sectors.
- Funding directives may result in resource allocations that exceed the mission's capacity to program effectively.
- In lower middle-income countries such as Romania, a more targeted pro-poor focus is needed to track the poverty impact of economic growth, governance, and social service programs and to counter rising concerns induced by looming, post-transition poverty rates.



state farm sector and of state-owned enterprises in the industrial and energy sectors. This factor has contributed to low productivity, weak competitiveness, high labor redundancy, and high costs of energy and other utilities. The country's legal and regulatory environment remains thin in a host of areas—from business to environment to social issues. The situation is further complicated by weak governance in the legislative and judicial branches.

USAID Romania's 1996–2001 programs emphasized economic growth. Over half of the mission's portfolio was allocated to indirect interventions to enable economic growth, especially in the areas of financial markets, agriculture, micro- and small- to medium-sized enterprises, the environment, and energy sector restructuring. One-third of the portfolio was devoted to programs in democracy and governance and in social services. Its democracy and governance programs are also indirect interventions: they address local government capacity building and civil society organization development. Social service reform programs highlight child welfare and health issues, blending direct service delivery with indirect actions aimed at strengthening policymaking and building capacity to deliver local social services. The rest of the portfolio is allocated to crosscutting programs such as training.

USAID Romania does not explicitly target poverty reduction, though the mission views the evolving poverty trends in the country as a gauge of the success of its programs. Its assistance strategy for FY2002–07 recognizes the connection between increasing poverty and escalating political volatility and social problems. As a senior officer observed, “failure to address the issue of poverty in Romania will jeopardize the very success of its transition.”

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## Background

### What Is a Poverty Reduction Approach?

The reduction or elimination of poverty is the overarching objective of many developing country governments and donor agencies. In heavily indebted poor countries (HIPC), governments and donors are building PRSPs that coordinate national development goals, government expenditures, and donor contributions in one integrated package that is a prerequisite for debt relief from international financial institutions.

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Admittedly, poverty reduction is not at the center of USAID's development agenda. The reduction or elimination of poverty is considered to be an important and desirable outcome of sustainable development, which is the guiding principle of the Agency's development assistance. A lively debate within USAID about reformulating priorities to emphasize poverty reduction has been joined by its international critics, who point to the U.S. Government's signature on the UN Millennium Development Goal to cut world poverty in half by 2015.

Conceptual differences exist between USAID's sustainable development approach and the evolving international poverty reduction model.<sup>1</sup> A poverty reduction approach first identifies who are the poor, where they live, and what causes their poverty. The poverty reduction approach then gives top priority to interventions that aim to improve the lives of the poor. When a poverty reduction

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<sup>1</sup> B. Lynn Salinger and Dirck Stryker, *Comparing Poverty Reduction Approaches: USAID and the Evolving Poverty Reduction Paradigm* (Cambridge, MA: AIRD, 2001). PCN-ACN-169.

approach focuses on economic growth, the interest is in growth that favors the poor. The approach also usually implies a strategy that increases the demand for labor—the most commonly held asset of the poor—and does not lead to increased prices for food and other basic consumer goods and services. Proponents also perceive increased dangers for the poor from increased openness of the economy to trade, investment, and information flows. Under the poverty reduction approach, attention and priority are given to the mitigation of such risks.

Poverty programs rely on the host government for the delivery of education and health services to the poor. Many such programs also place greater emphasis on the direct delivery of services to targeted vulnerable populations instead of emphasizing policy frameworks and more indirect intervention. Under poverty reduction strategies, governance programs explicitly seek the empowerment of the poor.

## About This Evaluation

This assessment of how USAID addresses the issue of poverty reduction is one of four case studies undertaken by USAID's Bureau for Policy and Program Coordination (PPC).<sup>2</sup> Their purpose is *not* to evaluate the USAID program; rather, the aim is to provide insight into the Agency's development strategy and to evaluate the extent to which USAID has adopted an effective poverty reduction approach.

The other three countries studied—Honduras, Mali, and Uganda—are HIPC countries involved in the preparation of PRSPs. As the sole non-HIPC country studied, Romania is the only one engaged in developing a Comprehensive Development Framework (CDF). The CDF, proposed by the World Bank as a counterpart to PRSPs, is intended to synthesize best development practices. It sets out national, long-term, comprehensive development strategies that are oriented toward end results—not

just expenditures. To foster country ownership and accountability of CDFs, donors and representatives of local government and civil society are encouraged to participate in their elaboration.

The case studies examined the following issues:

- Is USAID's program strategy different in countries preparing or following a poverty reduction strategy? To what extent has USAID followed its traditional approach or modified its approach? To what extent is USAID's approach consistent with a poverty reduction approach? To what extent is USAID's experience different in countries (such as Romania) that are not preparing a PRSP?
- What is USAID's relationship to a CDF or to a PRSP? How involved is USAID with discussions on the development of these strategies and on coordinating the efforts of donors?
- How does the USAID assistance program relate to local poverty reduction strategies? Is USAID "picking up a piece" of the country's poverty reduction program in conjunction with other donors?
- How have congressional earmarks helped or harmed a poverty approach? What would be different if there were no earmarks?

This assessment began with a review of documents by USAID, other donors, and the Government of Romania. The author also conducted interviews with staff of USAID Romania and a cross section of its implementing partners during February and March 2002. During the same period, meetings were being held in Bucharest under the auspices of a World Bank evaluation of its CDF. Participants included representatives of the Government of Romania, the World Bank, other development donors, and civil society organizations.

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<sup>2</sup> The assessments were undertaken by CDIE, the Center for Development Information and Evaluation, now the Office of Development Evaluation and Information (DEI).

# Recent Developments in Romania

## A Difficult Transition to Democracy and a Market Economy

Poverty in Romania is inextricably linked to political and economic developments. The popular revolution in December 1989 that violently removed President Nicolae Ceausescu from power marked the end of over 40 years of Communist Party domination, significant state-provided social safety net coverage, and a command economy. Twelve years later, Romania is still deemed to be in transition to democracy and a market economy.

During 1996–2000, Romania was led by a coalition of several parties with differing ideologies. Its tenure was marked by political paralysis and popular dissatisfaction with the lack of leadership. As a result, in late 1999 the president sacked the prime minister, replacing him with the governor of the National Bank. This reorganization did not restore public confidence. At the end of 2000, Romanians returned to power a minority government under the leadership of the PDSR (Party of Social

Democracy of Romania), which had ruled from 1990 to 1996.

The EU notes that the efficiency of Romania's legislature has improved considerably, interministerial cooperation in the executive branch has increased, and progress is being made toward decentralization.<sup>3</sup> Romanian civil society organizations that help to represent the poor, and other previously disenfranchised groups, have become more vocal in policy-making circles. One example of empowerment of the growing civil society community was its notable contribution to the passage in 2001 of the Free Access to Public Information Law, which helps to improve the transparency of governmental activity.

Already a member of the European Council, Romania's official goal is to merge with western Europe by joining its most esteemed regional institutions—NATO and the EU.<sup>4</sup> This integration goal is understood to mean economic, social, and political modernization, with the expectation that improvements in the standards of living of the general populace will ensue.<sup>5</sup> Accession requirements come with a hefty price tag, and they cover practices, institutions, and regulations in every sphere of Romanian society. To implement these requirements, substantial financial and technical assistance is available from donors, particularly the EU.

The Romanian Government understood at the beginning of 1990 that the transition to democracy and a market economy would entail social costs. Despite its leaders' repeated



"The Palace of Parliament" in Bucharest, the home of the Romanian legislature. The current minority government appears to be more resolved to pass reform-minded legislation than the previous coalition government.

<sup>3</sup> Commission of the European Communities, Regular Report on Romania's Progress Towards Accession (Brussels: European Commission 2001), <[http://europa.eu.int/comm/enlargement/report2001/ro\\_en.pdf](http://europa.eu.int/comm/enlargement/report2001/ro_en.pdf)>.

<sup>4</sup> Romania was formally admitted into NATO in November 2002.

<sup>5</sup> Commission of the European Communities, Applicant Countries Eurobarometer 2001: Public Opinion in the Countries Applying for EU Membership (Brussels: European Commission, 2002): 41–71, <[http://europa.eu.int/comm/public\\_opinion/cceb/cceb20011\\_en.pdf](http://europa.eu.int/comm/public_opinion/cceb/cceb20011_en.pdf)>.



public endorsement of integration, the government moved slowly to implement the full package of EU-mandated reforms. Through 1999, the result was economic deterioration, increasing poverty and social dysfunction, and persistent immaturity of political institutions. The economic picture is brighter in 2002, but the government is no longer as passive about the social costs of the transition. As a senior USAID Romania officer emphasized, “failure to address the issue of poverty in Romania will jeopardize the very success of its transition.”

While the current minority government appears to be more resolved to pass reform-minded legislation than the previous coalition government, an undercurrent of political instability persists. Several corruption scandals erupted in early 2002 that threatened to distract the government from its NATO and EU accession tracks—let alone from any antipoverty action plan.

### Donor Coordination Is Lacking

Romania’s most important donor is the EU, whose pre-accession assistance program supplies almost \$650 million per year. The World Bank, IMF, and European Bank for Reconstruction and Development respectively provide annual lending of \$415 million, about \$375 million, and \$280 million. USAID is a distant fifth in development assistance, with an average annual budget of about \$35 million between 1996 and 2001.

Formal coordination of donor activity by the Romanian Government is nonexistent, and coordination among donors is weak. Only in the areas of child protection and health are intermittent meetings held that involve most members of the donor community and representatives of the Government of Romania. These are organized by UNICEF and the Ministry of Health.

Within the donor community, the EU and international financial institutions maintain close, informal ties in order to coordinate activities. Some smaller donors operate unilaterally, while others use their contributions to further large-donor objectives. The latter is true of USAID, which has pro-

vided design or technical assistance funds at critical junctures for several World Bank initiatives.

In order to improve the Government of Romania’s ability to track aid flows, the UNDP and the World Bank agreed in February 2002 to provide modest funding for the inauguration of an aid coordination unit in the Ministry of Public Finance. This is the first step to shifting responsibility for development planning and implementation from donors to the government. Fledgling steps are being undertaken to build a program-based budgeting system, with training support provided by U.S. Department of Treasury advisors. Such a system will eventually offer public spending accountability to all Romanians by allowing the tracking of government expenditures by program objectives and the matching of program results with spending priorities.

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### Reversing the Decline in GDP and Increases in Unemployment and Inflation

Romania’s 23 million people face significant challenges in almost every sphere. Macroeconomic progress has been rocky: from 1997 to 1999 the country was plagued by declines in GDP; inflation was consistently over 30 percent from 1996 to 2001, reaching 155 percent in 1997 (Table 1).

The failure of Romania to achieve positive economic growth is due to a number of factors. Economic modernization in the rural and urban sectors has been minimal. Agricultural sector and land ownership reforms launched in the early 1990s resulted in average farm sizes below the threshold for economic viability (less than 2 ha of arable land per

**Table 1. Macroeconomic Indicators**  
(Percent)

	1996	1997	1998	1999	2000	2001*
GDP growth	3.9	−6.1	−4.8	−2.3	1.6	5.3
Annual inflation	38.8	154.8	59.1	45.8	45.7	34.5

Source: EU 2001

\* 2001 figures are provisional

farm household). Additional challenges include decapitalization of the former state farms, disintegration of irrigation system management, and insolvency of the agricultural credit bank. As a result, 4.2 million of 10 million inhabitants in the rural sector are poor and practice subsistence agriculture. Rural markets are weak, modern input use is scarce, and nonagricultural rural sector economic activity is minimal.

Despite some privatization efforts, state-owned enterprises continue to drain the government budget. Growth of the private sector is hampered by corruption, weak institutions, ineffective legal and judicial systems, and lack of transparent business regulation. Bureaucratic red tape severely hampers the growth of small and medium enterprises.<sup>6</sup> Environmental regulation is weak and enforcement has been all but nonexistent. In recent years, several ecological disasters involving the mining industry have attracted international concern and may jeopardize human health and investment potential.

Nonetheless, GDP growth in Romania has shown a positive trend since 2000. The government's deficit has begun to decline and the rate of inflation has been halved; it is expected to be less than 25 percent in 2002. The private sector now represents over 60 percent of Romania's economy. Growth has been led by an expansion of re-export activity: labor-intensive manufactures such as garments and wood furniture are sent from Romania to European markets.

Despite these positive signals, the experience of the last 12 years does not augur well for public support for the transition to democracy and market economics. Factory, farm, and mine closures all over the country have left large pockets of unemployment. During the Ceausescu regime, labor relocation—both forced and voluntary—into booming industrial towns was common. Today, there are few new jobs being created. To the extent that workers relocate, they return to rural-based families to eke out subsistence livings from agriculture. Average unemployment rose in 2000 to 7.1 percent (Table 2). Of those without jobs, 51.5 percent are considered “long-term unemployed.” Of those employed, an increasing number are shifting into agricultural sector employment (42.8 percent of those employed) and away from industry and construction.

## Increased Poverty in Romania and its Consequences

With the deterioration of Romania's economy in the late 1990s, the incidence of poverty increased significantly. At the same time—according to the more recently estimated absolute poverty measure—the incidence of extreme poverty remained relatively flat (Table 3).<sup>7</sup> The incidence of poverty is particularly high in the northeast and south. The most vulnerable groups are the young, single-parent families, families of the unemployed, rural and agri-

<sup>6</sup> IRIS (Center for Institutional Reform and the Informal Sector) *Red Tape Analysis: Regulation and Bureaucracy in Romania* (Bucharest IRIS, 2000), <[www.iriscenter.ro/english/red\\_tape/Red\\_Tape\\_comments.pdf](http://www.iriscenter.ro/english/red_tape/Red_Tape_comments.pdf)>.

<sup>7</sup> Until 2002, Romania's reports of rates of relative poverty and extreme poverty measured the percentage of households whose expenditures were, respectively, 60 percent and 40 percent of average household expenditure per equivalent adult. The relative measure has been criticized for overestimating the incidence of poverty in Romania because it did not take own-consumption into account. Newly estimated absolute poverty rates use more conventional measurement methods: they track the percentage of households whose incomes do not provide for meeting basic needs and the consumption of a locally defined food basket.

**Table 2. Romania's Unemployment Rates**  
(Percent)

	1996	1997	1998	1999	2000*	Average, 1996–2000
Unemployment (total)	6.7	6.0	6.3	6.8	7.1	6.6
Unemployment (male)	6.3	5.7	6.5	7.4	7.7	6.7
Unemployment (female)	7.3	6.4	6.1	6.2	6.4	6.5

Source: EU 2001

\*2000 figures are preliminary.

**Table 3. Poverty in Romania, 1995–2000**

	Poverty Rate (percent)		Extreme Poverty Rate (percent)	
	Relative poverty using 1995 poverty line*	Absolute poverty**	Relative poverty using 1995 poverty line	Absolute poverty**
1995	25.3	25.2	8.0	12.3
1996	19.9	23.3	5.1	9.8
1997	30.1	27.7	9.5	13.5
1998	33.8	27.3	11.7	11.8
1999	41.2	26.6	16.6	9.8
2000	44.0	30.6	—	12.2
2001	—	29.6	—	11.9

\* Romania Poverty Alleviation Commission, 2001

\*\*Romania National Plan for Poverty Alleviation and Promotion of Social Inclusion, 2002

cultural households, and minorities such as the Roma ethnic group. Pensioners are less vulnerable.

Social dysfunction is increasing under the pressures of rising poverty. For example, though birth control is legally obtainable and population growth rates are negative, children continue to be abandoned and institutionalized. Romania's capacity to deal with the psychosocial and educational problems of permanently institutionalized children is low. Domestic violence is cited as the leading health concern in a survey of women in one of Romania's largest cities.

Many Romanians question the governing elite's commitment to political and economic reform. Further, as a recent assessment prepared for USAID

Romania stated, "The population has become increasingly disenchanted with the lack of economic growth since the revolution, and many are questioning the benefits that the tentative moves toward market democracy have brought them."<sup>8</sup> According to another survey, a majority of Romanians believe that corruption and poverty are the country's most significant problems.<sup>9</sup>

<sup>8</sup> Rhys Payne, Guilain Denoeux, and Sebastian Lazaroiu, *USAID Romania: Democracy and Governance Assessment of Romania* (Burlington, Vt: Associates in Rural Development, 2001): 5, <[www.usembassy.ro/USAID/Documents/RoDGAssmntFinal1.pdf](http://www.usembassy.ro/USAID/Documents/RoDGAssmntFinal1.pdf)>.

<sup>9</sup> Vitosha Research, *Corruption Indexes: Regional Corruption Monitoring in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia* (Prepared for the Regional Corruption Monitoring System and USAID, April 2002), <[www.seldi.net/SELDI\\_fin\\_e2.PDF](http://www.seldi.net/SELDI_fin_e2.PDF)>.

## Poverty Reduction Is Not the First Priority

The Romanian experience sharply contrasts with those of HIPC countries, where governments, donors, and civil society harmonize development visions and expenditure frameworks in PRSPs. In 1999, the World Bank launched the CDF in Romania with a series of highly publicized consultations. These included Romanian Government officials, politicians, donors, NGOs, regional and local leaders, and sector-specific actors. The ensuing consensus report, *Romania's Shared Vision*, focused on poverty reduction and EU accession as twin goals for the country. The World Bank hoped that this vision would become the comprehensive, long-term development strategy for Romania and sought to create a CDF secretariat in the Prime Minister's Office to ensure its implementation. In the aftermath of government leadership changes, political volatility, and the demands of preparing for EU pre-accession, high expectations shifted to disappointment after the demise of the effort to institutionalize the CDF.<sup>10</sup>

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Romania's first Poverty Alleviation Commission was created in 1999 within the president's office, but its recommendations were ignored during the political transition. Though the government was slow to commit to poverty reduction, it was an explicit goal of several donors. In 2001, the World Bank's country assistance strategy targeted poverty reduction as a key strategic element. The EU's 2001 progress report also confirmed Romania's major challenge as

rising poverty and the social exclusion of categories of people such as abandoned children, young unemployed, single-parent and homeless families, and the Roma.<sup>11</sup>

Lack of coordination among donors led to the creation of multiple donor-supported national strategies. The UNDP supported the preparation of Romania's National Strategy for Sustainable Development in 1999 (scheduled for revision in 2002). In early 2000 the EU insisted upon a medium-term economic strategy, now embodied in the Pre-Accession Economic Plan.

After the 2000 elections, the new government announced its program for 2001–2004; an accompanying action plan listed a multitude of objectives. Its social section mentioned poverty and unemployment but concentrated on labor market, salary, social security, and welfare regime issues.

Romania's public dialogue over national priorities is just beginning to be broadened to include poverty reduction. In 2001, the new government established a reinvigorated Poverty Alleviation and Social Inclusion Promotion Commission in the Prime Minister's Office. The National Plan for Poverty Alleviation and Social Inclusion Promotion, adopted in July 2002, specifies strategic goals for the present governing period and beyond—priority goals for 2001–04 and medium-term goals for 2002–12.

Momentum is now building in favor of a poverty alleviation program. The Romanian Government's 2001–04 program includes a chapter on the "Fight Against Poverty and Unemployment." President Ion Iliescu has publicly discussed the commission's policy positions at length, but there has been little follow-through to date in implementing any kind of coordinated program.

A variety of institutional constraints in Romania preclude sufficient attention being paid to the poverty issue. Among such constraints are limited capacity in Romanian public institutions to 1) col-

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<sup>10</sup> World Bank, "Implementation of CDF Principles in a Transition Economy: A Case Study of Romanian Experience" (World Bank, forthcoming).

<sup>11</sup> European Commission, *Regular Report on Romania's Progress*, 67.



**Table 4. Romania's Poverty Alleviation and Social Inclusion Goals**

Priority Goals 2001–04	Strategic Medium-Term Goals 2002–12
Elimination of the most severe forms of extreme poverty	Elimination of extreme poverty
Vigorous steps to protect children from extreme factors of distress: abandonment, violence, economic and sexual exploitation, and human trafficking	Elimination of severe social exclusion cases and promotion of social inclusion
Rapid reduction of poverty by increasing absorption of economically active persons	Gradual reduction of poverty for economically active persons and pensioners
Stabilization of the pension system	Promotion of social cohesion and development
Establishment of monitoring mechanisms for implementation of the Anti-Poverty and Social Promotion Inclusion Action Plan	Provision of decent living conditions and access to personal development opportunities for children
Design of county-level antipoverty and social inclusion promotion plans	Development of individual capacities
Implementation of the national social assistance system	Development of the capacities of national, county, and local public authorities to identify social issues, design and implement social policies and programs, and evaluate and monitor these policies and programs
Initiation of plans for rehabilitating decaying housing spaces and for producing public utilities at acceptable costs and in all localities	Activation of community forces and collective initiatives to build a social partnership culture

Source: EU 2001

lect and analyze poverty data, 2) design and implement poverty programming, 3) manage programs and the political debate around them at the center of government, and 4) coordinate among the public agencies at all levels of government that need to be involved in poverty reduction strategizing.<sup>12</sup>

## USAID Romania's Strategic Approach

USAID Romania's 1996–2001 strategic action plan referred to eight objectives:

1. development and growth of private enterprises

2. a more competitive and market-responsive private financial sector
3. a more economically sustainable and environmentally sound energy sector
4. increased environmental management capacity to promote sustainable economic growth
5. increased and better-informed citizen participation in political and economic decisionmaking
6. more effective, responsive, and accountable local government
7. improved welfare of children and women
8. crosscutting programs

<sup>12</sup> USAID Romania Mission, "The Poor and Disenfranchised—Broadening the Benefits of Transition Reforms" presented at Challenges of Transition, USAID Partners in Transition Conference, Sofia, Bulgaria, September 2001, <[www.inform.umd.edu/IRIS/IRIS/docs/14\\_Romania.pdf](http://www.inform.umd.edu/IRIS/IRIS/docs/14_Romania.pdf)>.

Fifty-eight percent of strategic plan resources were allocated to economic restructuring, 15 percent to strengthening democratic institutions, and 21 percent to social programs focused on improved welfare of children and women. The remaining 6 percent were allocated to crosscutting initiatives—mostly training (Tables 4 and 5).<sup>13</sup>

For the period 2002–06, USAID Romania’s Strategic Plan simplifies its program into four objectives:

1. development of a market-oriented economy
2. promotion of democratic governance
3. improvements in the effectiveness and accessibility of child welfare and health care services
4. implementation of crosscutting objectives

The new strategic plan presents the issue of mounting poverty as context for proposed activities, though it does not feature an explicit and concerted commitment to poverty reduction. The plan seeks to facilitate competitive and efficient markets to attract investment and create new jobs, strengthen local government and civil society organizations, and provide sustainable services to children and women whose welfare have been most threatened during the transition.

These goals are very much in line with the Romanian Poverty Alleviation Commission’s strategic vision. To realize them, USAID Romania is relying in large measure on indirect, enabling reforms to improve the country’s incentives environment and to foster economic growth, openness to world markets, greater participation and decentralization of decisionmaking, and improved capacity for social service delivery. Some staff express growing frustration with rising poverty levels in Romania and question whether the program’s

economic growth emphasis should be reduced in favor of greater weight on social service delivery and direct interventions.

## **Economic Growth Is the Highest Priority**

USAID Romania’s 1996–2001 private sector portfolio included a wide range of programs and projects to promote economic growth and openness to trade, strengthen financial markets, and improve the business environment. It also

- helped the Ministry of Finance overhaul its budget and revenue tracking processes
- brought rural agricultural producers together into water-user and marketing associations to strengthen their market power
- developed competitive export markets for agricultural products
- modernized energy and utility systems
- protected the environment
- addressed market failures affecting micro-, small-, and medium-sized enterprises

The Private Sector Initiatives Group works from the premise that economic growth is required to generate the new employment opportunities, increased incomes, and taxes that will finance improved service delivery for Romanians. Inflation and the country’s lack of macroeconomic stability are seen as the biggest burdens on the poor. The group believes that inadequate economic growth, unemployment, and poverty must be addressed before pressing child welfare and health concerns can be resolved in sustainable ways.

The USAID mission works with the Romanian Government to create an environment conducive to economic growth. As the private sector team leader noted, “We have to work with the government on many of these issues. ... Far from retreating from interacting with government, I want us to get more involved with it. The introduction of capitalism

<sup>13</sup> Nearly all of USAID Romania’s resources are provided under the Support for Eastern European Democracy (SEED) Act. SEED includes funds provided by other federal agencies for technical assistance programs over which USAID has little independent programming discretion—though such resources are counted toward the mission’s total obligation.

**Table 5. USAID Romania Portfolio, 1996–2001**  
(in thousand \$)

	1996	1997	1998	1999	2000	2001	Totals	
<b>Economic Restructuring</b>								
Macroeconomic support					4,425	4,240	8,665	
Privatization and assistance to enterprises	13,395	8,050	6,943	3,900	4,125	3,022	39,435	
Improving the business climate	350	2,450	950	2,585	4,125	2,715	13,175	
Investment and trade	6,000	6,000	11,050	7,000	1,000	1,000	32,050	
Human resources	1,100	600	1,000	2,900	1,500	1,400	8,500	
Agriculture and agribusiness	985	800	2,800	1,200	865	3,315	9,965	
Energy efficiency	1,000	3,000	2,550	960	1,335	1,185	10,030	
<b>Subtotal</b>	<b>22,830</b>	<b>20,900</b>	<b>25,293</b>	<b>18,545</b>	<b>17,375</b>	<b>1,6877</b>	<b>121,820</b>	<b>58%</b>
<b>Strengthening Democratic Institutions</b>								
Democratic pluralism	209	1,833	1,550	3,990	5,620	4,601	17,803	
Political process and governance	446	1,900	1,830	4,650	2,015	2,715	13,556	
<b>Subtotal</b>	<b>655</b>	<b>3,733</b>	<b>3,380</b>	<b>8,640</b>	<b>7,635</b>	<b>7,316</b>	<b>31,359</b>	<b>15%</b>
<b>Improving the Quality of Life</b>								
Child welfare		63	2,200	2,535	4,400	4,900	14,098	
Employment and social safety				654	1,400	1,351	3,405	
Housing	1,000	1,000	1,570				3,570	
Health	1,403	2,937	2,660	2,315	2,425	3,417	15,157	
Environment	1,728	2,900	1,900	233		1,428	8,189	
<b>Subtotal</b>	<b>4,131</b>	<b>6,900</b>	<b>8,330</b>	<b>5,737</b>	<b>8,225</b>	<b>11,096</b>	<b>44,419</b>	<b>21%</b>
Miscellaneous	347	1,467	2,315	3,478	1,765	3,126	12,498	6%
<b>Totals</b>	<b>27,963</b>	<b>33,000</b>	<b>39,318</b>	<b>36,400</b>	<b>35,000</b>	<b>38,415</b>	<b>210,096</b>	<b>100%</b>

Source: USAID Romania

without the right regulatory framework will undermine Romanians' support for free markets if we're not careful."

Within the private sector group, interventions are only explicitly targeted to poor beneficiaries under support activities for micro- and small- to medium-sized enterprises, though other programs contain numerous implicit linkages to activities that will benefit the poor. An example can be found in projects that aim to improve the efficiency of Romania's agricultural sector. Increased agricultural productivity should benefit the poor by reducing food costs, since the poor allocate a high percentage of their consumption basket to food. Improved agricultural incomes should also benefit the rural poor, since farming is one of the occupations with the highest incidence of poverty. The degree of this benefit depends, however, on the extent of rural inequality and whether the dynamics of rural poverty are taken into account in project design and implementation.

USAID acknowledges great difficulties in restructuring Romania's fragmented agricultural sector and seeks to increase the economic viability of the country's micro-sized farms in two ways. First, USAID provides technical assistance to a World Bank irrigation rehabilitation project to organize water-users associations. Such associations may help to aggregate land into larger production units that will permit the recapitalization of farms, improved access to water through the building of tertiary irrigation canals, and the introduction of new, higher-valued crops. Second, USAID's agribusiness project is helping Romania's Parliament to draft legislation that will provide tax incentives to agricultural producers to organize economically viable marketing units. Increased employment in the rural sector should result from the project's efforts to encourage investments in Romania's labor-intensive agribusiness sector and to promote exports of high-value products such as wine, beef, and alfalfa.

Though USAID Romania takes the promotion of economic restructuring very seriously, there is no program economist at the mission. Staff from all

programs lamented the omission of this position; several noted that they would benefit from the insights of an economist with a broad understanding of how intersectoral labor markets and the private sector function, what drives competition, and the engagement of the forces of supply and demand.

## Improving Physical and Institutional Infrastructure

Another example of USAID Romania's implicit linkage to the poor is programs that help to improve the country's physical and institutional infrastructure. USAID Romania works with municipalities to enable them to raise funds on municipal bond markets so that they can invest in infrastructure improvements and thereby create local jobs. USAID is also helping to restructure equity markets to protect the solvency of Romania's pension systems, the critical safety net for the elderly.

Romanian consumers will ultimately benefit from USAID's technical assistance toward a sound regulatory environment for private, competitive energy markets. The country's energy sector is characterized by technical inefficiency and lack of competition, and it is burdened by payments arrears owed by the state-owned industrial sector. As a result, Romanians pay a large share of their incomes for electricity and heat, which places a significant burden on the poor.<sup>14</sup>

USAID-funded feasibility studies leverage public and private investments for improved environmental infrastructure, regulation, and monitoring systems. Such investments stand to benefit the poor because they suffer disproportionately—because of where they live and the kinds of work they do—from exposure to environment-related health problems caused by unsafe drinking water, industrial pollution, and accidents.

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<sup>14</sup> Attesting to the significant burden of energy costs on the poor in this region, a multicountry assessment of social safety net approaches that ease the impact of energy reforms on vulnerable populations was launched in March 2002 in Bulgaria, Romania, Armenia, and Kazakhstan by the Energy Infrastructure Division of USAID's Europe and Eurasia Bureau's Office of Environment, Energy, and Social Transition.



## Governance Programs Foster Responsiveness, Accountability, and Transparency

There are important synergies among USAID Romania's programs in economic growth, democracy and governance, and social services. Mission staff share resources to promote transparency, accountability, and oversight—requirements for competitive markets, good government, and accessible social service delivery systems.

USAID Romania's democracy and governance activities do not explicitly target the poor, but the efforts toward decentralization and the strengthening of civil society organizations aim at allowing expression of views on the country's priorities from a broader array of stakeholders. The Local Government Assistance program seeks to strengthen the capacity of local authorities in counties, municipalities, towns, and villages. The goal is to build local governments that are more effective, responsive, and accountable—and thus more capable of representing local needs to the central government.

USAID Romania's support for better local governance and for increased and better-informed citizen participation in decisionmaking helps to strengthen the demand side of the results equation. On the supply side, weak government capacity makes it difficult for the government to track performance results, let alone report them to the public. There are fledgling efforts underway to organize information about performance results and resource flows. With assistance from the U.S. Department of the Treasury, Romania's ministries are beginning to organize their budgets by program and to attach performance indicators. The next step will be to make future resource allocation decisions a function of results trends. Donor support is also helping Romania track reimbursable and nonreimbursable aid inflows.

Public opinion polls in Romania cite low “life satisfaction” and increasing concerns about corruption and poverty.<sup>15</sup> For Romanians, demanding results in

areas such as poverty is difficult; their expression is hampered by lack of experience in democracy and weak partnership between local government and civil society representatives. Romanians still need to learn how to build collaboration among various groups—including central government, local government, elected politicians, nongovernmental organizations, academia, media, private firms, and labor. Similarly, many Romanian officials are inexperienced in seeking advice and collaboration from informed civil society organizations. They also would benefit from further training to encourage the adoption of broader social interests and de-emphasis of private ones.

USAID Romania's democracy and governance program prefers to work with local government authorities and is not very engaged in the center, where challenges include the involvement of a plethora of political parties and civil society organizations. Yet one of the key conclusions of the assessment undertaken for USAID Romania is that “without progress in addressing the key deficiencies of the system at the national level, Romania's transition to democratic governance is likely to skip backward or fail.”<sup>16</sup>

## Direct and Indirect Interventions to Improve Child Welfare and Health

USAID Romania's activity leaders emphasize indirect over direct interventions in the social services area as well. Staff see working with government agencies at all levels on policy and implementation rules as an important component of each project.

USAID's social sector reform program centers on child welfare and women's health to address the needs of two of Romania's most vulnerable social groups. One component is the ChildNet program, which seeks to reduce the number of children who enter or languish in Romania's child welfare institutions and to move children to care within community-based programs. During the Ceausescu regime,

<sup>15</sup> European Commission, *Regular Report on Romania's Progress, 2001*; Vitosha Research, *Corruption Indexes*.

<sup>16</sup> Rhys Payne, Guilain Denoeux, and Sebastian Lazaroioi, *Democracy and Governance Assessment of Romania*, 39.

some families of limited means institutionalized their children for economic reasons. Twelve years after the regime's fall, the rate of child abandonment is still high.<sup>17</sup>

Another component of the program is the Family Health Initiative, whose chief of party estimates that half of its resources are allocated to direct training and service delivery to target beneficiaries. The other half is dedicated to working with government agencies to strengthen the policy environment in which health services are designed and delivered. The Family Health Initiative also seeks to improve the availability of primary health care services to rural women. It is working with a new class of physician in Romania—general practitioners or family doctors—to strengthen their capacity to provide women with primary, obstetrical, gynecological, counseling, and reproductive health services.<sup>18</sup> Such services are critical to reducing unwanted pregnancy, thereby reducing child abandonment and the economic effects of high rates of abortion. Eighteen rural counties have been selected by the project's implementing agency for assistance, since the poor predominate in rural areas and the burden of disease falls disproportionately on them. Romania's Ministry of Health and Family has agreed to introduce the initiative's rural family health care model in the other 23 counties.

USAID also supports the Center for Women in the Black Sea city of Constanta. The center's survey of 1,200 local women singled out domestic violence as the most important health problem for women, much to the surprise of the Romanian health and public safety professionals. The center now provides health and legal counseling services to battered women in Constanta and its rural surroundings. It also provides information about health issues like sexually transmitted diseases, HIV/AIDS, and reproductive health. The center runs a public



Nurses at a pediatric ward in Bucharest care for an abandoned infant. USAID's social sector reform program seeks to reduce the number of children languishing in welfare institutions.

awareness campaign to reduce community acceptance of domestic violence and is raising public support for establishing a women's shelter. Further, the center conducts training programs for professionals from a variety of public agencies—including medicine, law enforcement, criminal justice, and education—to recognize and develop effective strategies to prevent and handle incidents of domestic violence. The Constanta program has laid the template for a national program against domestic violence and the development of family violence legislation.

## Earmarks Affect USAID Romania's Health Programming

Funding directives or earmarks within USAID Romania's budget cover family planning, child welfare, HIV/AIDS, and tuberculosis. Their combined funding amounts to \$5.85 million—out of a \$35 million budget— broken down as follows:

Reproductive health	\$3.00 million
Child welfare	\$2.00 million
HIV/AIDS	\$0.70 million
Tuberculosis	\$0.15 million

In early 2002, it appeared that the reproductive health earmark would be significantly increased in FY2002, giving the mission more money in that area than it could program effectively. These directives require creative programming and can restrict flexibility. For example, the mission had hoped to allocate resources for a health sector financing

<sup>17</sup> K. Fern Greenwell, *Child Welfare Reform in Romania: Abandonment and De-Institutionalization, 1987–2000* (Washington, DC: USAID, 2001), <[http://www.dec.org/pdf\\_docs/PNACN639.pdf](http://www.dec.org/pdf_docs/PNACN639.pdf)>.

<sup>18</sup> Until very recently, Romania's health care system trained medical specialists who offered their services only in specialized clinics. Today, only those with health insurance—the employed—can avail themselves of these services, which are largely urban-based. They do not reach the unemployed, the self-employed, and residents of rural areas where agricultural self-employment predominates.

reform project in its upcoming strategic plan, but was constrained from addressing this due to the combination of budget cutbacks and funding directives on the four issues above. While the allocation of 17 percent of USAID Romania's portfolio to earmarked programs is not an unduly high proportion of the mission's total budget, such mandates reduce the mission's flexibility to fund social service activities in areas outside of those directly covered by the earmarks.

## Lessons Learned

- 1 Lack of coordination on poverty reduction at the central level of government increases the difficulty of coordinating donor initiatives, even though donors are concerned about rising poverty rates.**

Though USAID Romania views evolving poverty trends as a gauge of the success of its programs, the mission emphasizes economic growth and does not explicitly target pro-poor growth strategies or poverty reduction. Nevertheless, staff regard poverty as the cause of many of Romania's broader social ills. They suggest that political volatility is another poverty-related outcome, concluding that increasing poverty set the stage for a change in political power in December 2000. As a senior officer observed, "failure to address the issue of poverty in Romania will jeopardize the very success of its transition."

The government's commitment to fight poverty still feels diffuse. Poverty reduction in Romania is mentioned in the strategy statements or annual reporting documents of donors such as the EU, the World Bank, and the UNDP. The lack of a centralized planning process means that donors in Romania do not speak with one voice on poverty issues. This was an intention of the World Bank's CDF, which never resulted in the institutionalization of a broad forum for discussion of strategy on poverty reduction between donors and Romanian stakeholders.<sup>19</sup>

- 2 The presence of a program economist on the mission's staff is required to enable market and political economy analysis of policy choices in economic growth, democracy and governance, and social service sectors.**

USAID Romania staff call attention to lost advocacy opportunities because the mission lacks a program economist with a sound base in macroeconomic theory. Resource allocation decisions in Bucharest and Washington could be influenced by a program economist who can articulate the linkages between macroeconomic stability, economic growth, institutional reform, employment creation, environmental protection, political stability, and social welfare.

- 3 Funding directives may result in resource allocations that exceed the mission's capacity to program effectively.**

USAID missions in Eastern Europe depend less heavily than others on Development Assistance and Child Survival and Diseases accounts for their total obligation. Seventeen percent of USAID Romania's annual budget is obligated to reproductive health, child welfare, HIV/AIDS, and tuberculosis. While this does not represent an unduly high proportion of the mission's total budget, such mandates reduce the mission's flexibility to fund social service activities not directly covered by the earmarks.

- 4 In lower middle-income countries such as Romania, a more targeted pro-poor focus is needed to explain the poverty impact of economic growth, governance, and social service programs and to counter rising concerns induced by looming, post-transition poverty rates.**

USAID's longer-term strategy needs to focus on reducing the stubborn pockets of poverty hidden behind the veneer of newly positive growth rates. This does *not* suggest that USAID needs to allocate more monies to direct social service delivery. Rather, USAID missions should pay more attention to the poverty impact of their economic growth, governance, and social service programs. In the absence of this more targeted pro-poor

<sup>19</sup> World Bank, "Implementation of CDF Principles in a Transition Economy: A Case Study of Romanian Experience" (World Bank, forthcoming).

focus, the rising incidence of poverty in countries such as Romania leads to cynicism and pressure on donors to “do more poverty work,” for example, by decreasing the funding of private sector initiatives and increasing funding for direct social service delivery.

The mission’s emphasis on private sector initiatives is still of primary importance. Positive economic growth remains quite fragile in Romania. Moreover, as a World Bank development report notes, “Where growth has occurred, it has been an important source of poverty reduction, and where it has not, poverty has often stagnated.”<sup>20</sup> Because economic growth and poverty reduction are closely linked, the allocation of a major share of USAID Romania’s resources to private sector initiatives still makes sense.

However, the legacy of the drawn-out transition in Romania has been severe declines in income and wellbeing and increases in social exclusion for certain vulnerable groups. Such regressions lead to concerns that USAID Romania’s programs may not be appropriately weighted to deal with the social dysfunction that rising poverty engenders. This experience suggests that USAID’s economic growth and private sector initiatives and its governance, and social services programs could have a stronger impact on poverty reduction if their impact on the poor was tracked.

<sup>20</sup> World Bank, *World Development Report 2000/2001: Attacking Poverty* (Oxford University Press, 2001), <[www.worldbank.org/poverty/wdrpoverty/report/ch3.pdf](http://www.worldbank.org/poverty/wdrpoverty/report/ch3.pdf)>.

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Failure to implement strategies that make explicit the expected consequences for the poor runs the risk that donors will shift their strategies away from growth altogether. Rather than maintaining an emphasis on indirect economic, political, and social policy reforms that benefit the population more broadly, priorities may be shifted to direct social service delivery on behalf of a much smaller pool of beneficiaries. For instance, while the share of Romanians with improved access to quality reproductive health services is expected to increase to 40–50 percent by 2006, all Romanians would benefit from health financing reforms designed to improve the efficiency of health care delivery systems. By undertaking poverty impact assessments of their strategies, USAID missions could ensure that all of their strategic objectives are focused on sustainable development that lifts the poor out of poverty as countries progress.

**About this publication:** IBI–International Business Initiatives furnished editorial and production assistance for this publication.

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